

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF FOUNTAIN RUN)
WATER DISTRICT (SEWER)
OPERATIONS) FOR A RATE) CASE NO. 2002-00198
ADJUSTMENT PURSUANT TO THE)
ALTERNATIVE RATE FILING)
PROCEDURE FOR SMALL UTILITIES)

O R D E R

On June 10, 2002, Fountain Run Water District (Fountain Run) filed its application for Commission approval of its proposed sewer rate. Commission Staff, having performed a limited financial review of Fountain Run s operations, has prepared the attached Staff Report containing Staff s findings and recommendations regarding the proposed rate. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 10 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have no more than 10 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 23rd day of July, 2002.

By the Commission

ATTEST:


Executive Director

STAFF REPORT
ON
FOUNTAIN RUN WATER DISTRICT (SEWER OPERATIONS)
CASE NO. 2002-00198

Pursuant to a request by Fountain Run Water District (Fountain Run) for assistance with the preparation of a rate application for its sewer operations, Commission Staff (Staff) performed a limited financial review of Fountain Run's test year operations for the calendar year ending December 31, 2000. The scope of Staff's review was limited to obtaining information as to whether the test period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Upon completion of the review, Staff assisted Fountain Run in the development and preparation of a rate application. The application included an adjusted pro forma operating income statement wherein adjustments were made to test year operating revenues and expenses that were known and measurable and deemed to be reasonable. The rate proposed by Fountain Run was based on the pro forma income statement as shown in the application. The application also includes the calculation of Fountain Run's revenue requirement using a 1.2 debt service coverage, which is frequently used by the Commission to determine revenue requirements for small sewer utilities. To generate the revenue requirement of \$29,158, Fountain Run is proposing to increase its annual revenues from sewer rates by \$10,948, an increase of 60.12% over normalized sewer revenues of \$18,210.

On June 10, 2002, Fountain Run filed its rate application to the Commission for consideration. Staff is hereby adopting the contents of that application as its recommendation in this report as if fully set out herein. Sam Reid is responsible for all revenue adjustments and calculation of the proposed rate. Jack Kaninberg is responsible for the determination of the revenue requirement. Based on the information included in Fountain Run's application, Staff is of the opinion that the rate proposed by Fountain Run, as shown in Attachment A of this report, is reasonable and should be approved by this Commission.

Signatures

Prepared by: Jack Kaninberg
Financial Analyst, Water and Sewer
Revenue Requirements Branch
Division of Financial Analysis

Prepared by: Sam Reid
Rate Analyst, Communications, Water,
and Sewer Rate Design Branch
Division of Financial Analysis

